MONETARY POLICY STATEMENT

# PRESS CONFERENCE


## Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB


*Frankfurt am Main, 15 December 2022*

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Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to raise the three key ECB interest rates by 50 basis points and, based on the substantial upward revision to the inflation outlook, we expect to raise them further. In particular, we judge that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The key ECB interest rates are our primary tool for setting the monetary policy stance. The Governing Council today also discussed principles for normalising the Eurosystem’s monetary policy securities holdings. From the beginning of March 2023 onwards, the asset purchase programme (APP) portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time.

At its February meeting the Governing Council will announce the detailed parameters for reducing the APP holdings. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions. By the end of 2023, we will also review our operational framework for steering short-term interest rates, which will provide information regarding the endpoint of the balance sheet normalisation process.

We decided to raise interest rates today, and expect to raise them significantly further, because inflation remains far too high and is projected to stay above our target for too long. According to Eurostat’s flash estimate, inflation was 10.0 per cent in November, slightly lower than the 10.6 per cent recorded in October. The decline resulted mainly from lower energy price inflation. Food price inflation and underlying price pressures across the economy have strengthened and will persist for some time. Amid exceptional uncertainty, Eurosystem staff have significantly revised up their inflation projections. They now see average inflation reaching 8.4 per cent in 2022 before decreasing to 6.3 per cent in 2023, with inflation expected to decline markedly over the course of the year. Inflation is then projected to average 3.4 per cent in 2024 and 2.3 per cent in 2025. Inflation excluding energy and food is projected to be 3.9 per cent on average in 2022 and to rise to 4.2 per cent in 2023, before falling to 2.8 per cent in 2024 and 2.4 per cent in 2025.

The euro area economy may contract in the current quarter and the next quarter, owing to the energy crisis, high uncertainty, weakening global economic activity and tighter financing conditions. According to the latest Eurosystem staff projections, a recession would be relatively short-lived and shallow. Growth is nonetheless expected to be subdued next year and has been revised down significantly compared with the previous projections. Beyond the near term, growth is projected to recover as the current headwinds fade. Overall, the Eurosystem staff projections now see the economy growing by 3.4 per cent in 2022, 0.5 per cent in 2023, 1.9 per cent in 2024 and 1.8 per cent in 2025.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

## Economic activity

Economic growth in the euro area slowed to 0.3 per cent in the third quarter of the year. High inflation and tighter financing conditions are dampening spending and production by reducing real household incomes and pushing up costs for firms.

The world economy is also slowing, in a context of continued geopolitical uncertainty, especially owing to Russia's unjustified war against Ukraine and its people, and tighter financing conditions worldwide. The past deterioration in the terms of trade, reflecting the faster rise in import prices than in export prices, continues to weigh on purchasing power in the euro area.

On the positive side, employment increased by 0.3 per cent in the third quarter, and unemployment hit a new historical low of 6.5 per cent in October. Rising wages are set to restore some lost purchasing power, supporting consumption. As the economy weakens, however, job creation is likely to slow, and unemployment could rise over the coming quarters.

Fiscal support measures to shield the economy from the impact of high energy prices should be temporary, targeted and tailored to preserving incentives to consume less energy. Fiscal measures falling short of these principles are likely to exacerbate inflationary pressures, which would necessitate a stronger monetary policy response. Moreover, in line with the EU's economic governance framework, fiscal policies should be oriented towards making our economy more productive and gradually bringing down high public debt. Policies to enhance the euro area's supply capacity, especially in the energy sector, can help reduce price pressures in the medium term. To that end, governments should swiftly implement their investment and structural reform plans under the Next Generation EU programme. The reform of the EU's economic governance framework should be concluded rapidly.

## Inflation

Inflation declined to 10.0 per cent in November, mainly on the back of lower energy price inflation, while services inflation also edged down. Food price inflation rose further to 13.6 per cent, however, as high input costs in food production were passed through to consumer prices.

Price pressures remain strong across sectors, partly as a result of the impact of high energy costs throughout the economy. Inflation excluding energy and food was unchanged in November, at 5.0 per cent, and other measures of underlying inflation are also high. Fiscal measures to compensate households for high energy prices and inflation are set to dampen inflation over next year but will raise it once they are withdrawn.

Supply bottlenecks are gradually easing, although their effects are still contributing to inflation, pushing up goods prices in particular. The same holds true for the lifting of pandemic-related restrictions: while weakening, the effect of pent-up demand is still driving up prices, especially in the services sector. The depreciation of the euro this year is also continuing to feed through to consumer prices.

Wage growth is strengthening, supported by robust labour markets and some catch-up in wages to compensate workers for high inflation. As these factors are set to remain in place, the Eurosystem staff projections see wages growing at rates well above historical averages and pushing up inflation throughout the projection period. Most measures of longer-term inflation expectations currently stand at around two per cent, although further above-target revisions to some indicators warrant continued monitoring.

## Risk assessment

Risks to the economic growth outlook are on the downside, especially in the near term. The war against Ukraine remains a significant downside risk to the economy. Energy and food costs could also remain persistently higher than expected. There could be an additional drag on growth in the euro area if the world economy were to weaken more sharply than we expect.

The risks to the inflation outlook are primarily on the upside. In the near term, existing pipeline pressures could lead to stronger than expected rises in retail prices for energy and food. Over the medium term, risks stem primarily from domestic factors such as a persistent rise in inflation expectations above our target or higher than anticipated wage rises. By contrast, a decline in energy costs or a further weakening of demand would lower price pressures.

## Financial and monetary conditions

As we tighten monetary policy, borrowing is becoming more expensive for firms and households. Bank lending to firms remains robust, as firms replace bonds with bank loans and use credit to finance the higher costs of production and investment. Households are borrowing less, because of tighter credit standards, rising interest rates, worsening prospects for the housing market and lower consumer confidence.

In line with our monetary policy strategy, twice a year the Governing Council assesses in depth the interrelation between monetary policy and financial stability. The financial stability environment has deteriorated since our last review in June 2022 owing to a weaker economy and rising credit risk. In addition, sovereign vulnerabilities have risen amid the weaker economic outlook and weaker fiscal positions. Tighter financing conditions would mitigate the build-up of financial vulnerabilities and lower tail risks to inflation over the medium term, at the cost of a higher risk of systemic stress and greater downside risks to growth in the short term. In addition, the liquidity needs of non-bank financial institutions may amplify market volatility. At the same time, euro area banks have comfortable levels of capital, which helps to reduce the side effects of tighter monetary policy on financial stability. Macroprudential policy remains the first line of defence in preserving financial stability and addressing medium-term vulnerabilities.

## Conclusion

Summing up, we have today raised the three key ECB interest rates by 50 basis points and, based on the substantial upward revision to our inflation outlook, we expect to raise them further. In particular, we judge that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. Moreover, from the beginning of March 2023 onwards, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities.

Our future policy rate decisions will continue to be data-dependent and determined meeting by meeting. We stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term inflation target.

We are now ready to take your questions.

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**I have two questions. One on "the significantly higher rates at a steady pace". Does that mean we are going to see more 50-basis-point hikes in the future? And how many do you envision if you see significantly higher rates?**

**On QT, quantitative tightening, how do you decide which one do you reinvest and which not? Is there also a metric behind?**

On the first one, I'm glad that you picked up the key messages that are really embedded in this monetary policy statement that I have just read for you. One of the key messages, in addition to the hike that we decided today, is the indication that not only will we raise interest rates further, which is something that we had said before, but we also say that today we judged that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive, to ensure a timely return of inflation to our 2% medium-term target. I'm reading straight from the monetary policy statement, first paragraph, because that is the one that that really includes the four key messages that we have. One of them is that we, at this point in time, expect and judge that we will have to raise interest rates significantly. Now, what does that mean? You have to read it together with the steady pace. It is pretty much obvious that, on the basis of the data that we have at the moment, significant rise at a steady pace means that we should expect to raise interest rates at a 50-basis-point pace for a period of time.

The second element that you have in this paragraph is the reference to a steady pace, so it's significant, and it has to be a steady pace, which means that we have made progress over the course of the last few months, but we have more ground to cover. We have longer to go, and we are in for a long game.

On your second question, which is relating to the second part of our decision, about the quantitative tightening, or the reduction of the size of our balance sheet, where we decided the key principles, so predictable, measured, and we had said that at this particular meeting we would come with key principles. Clearly, the first principle is the starting point, which we have agreed would be early March 2023. And we have also agreed on the monthly average calculated over a period of four months until the end of the [second] quarter. After that, as indicated in the monetary policy statement, we will reassess and we will determine what is the appropriate pace at which we continue this process. Why did we pick €15 billion? It represents roughly half the redemptions over that period of time. So it seemed, based on the advice that we received from our market people, and all those involved in the decision-making process, which includes all the national central banks, by the way, on this occasion, in December, it seemed an appropriate number in order to normalise our balance sheet, bearing in mind that the key tool is the interest rate.

**So you said interest rates have to rise for a period of time. Investors currently expect a terminal rate of about 3%. Does that sound reasonable to you? Is that in line with what the Governing Council had in mind with the statement?**

**Then, on quantitative tightening, I'm curious what will determine the correct pace of APP in the future? Is it all about the inflation outlook, or is it more a question of what the market can digest?**

I'll start with your second question. These two components of our monetary policy decision today are of a different nature. We clearly see the interest rate as the primary tool intended to fight inflation, to tame inflation, and to return it to 2%. The quantitative tightening is working sort of, not in the background, but is working to complement, to align with our key monetary policy tool, which is the interest rate. So there is no element of monetary policy stance, so to speak, associated with the reduction of the size of our balance sheet.

On your first question: Our staff projections, that embed and incorporate the market expectations of our terminal rate, do not certainly allow a return to the 2% inflation target that we have in a timely manner. So more needs to be done, and as a result, new market expectations will, hopefully, be embedded in future staff projections, which will indicate that we can reach the 2% inflation target timely.

**You stated in a recent opinion that a gas price regulation could put at risk financial stability and be counterproductive. Could you explain why this mechanism would increase margin calls and volatility, because this is not necessarily logical? If the proposed mechanism is not efficient, what will be your solution for an energy price cap?**

**Second question. How do you approach this unprecedented phase for the ECB of quantitative tightening of the balance sheet? How do you predict investors' reaction?**

You asked a question about the opinion that we released at the request of the Commission and in accordance with the Treaty provisions, which predicate that the ECB, when consulted, has to issue such opinions. So we did so, and we did so taking into account financial stability principles, which is what we were consulted about, as well as the exact definition of the role of the ECB in respect of the gas price mechanism that was submitted to our review. I would refer you to the legal opinion. Suffice to say that one of the considerations in the legal opinion that was issued has to do with the fact that there is a clear risk of pushing out of the derivative and clearing system, which functions as it does. The TTF [Title Transfer Facility] has its own method of operations, but at least there is a degree of information that is available and that can be used. The risk is, in our view, based on the financial stability perspective that we take, that there could be transactions that would move out to much darker corners with a lot less information available that would then certainly cause some financial instability.

Separately from that, we have also opined on the fact that the ECB can be consulted, but is not a member of the operation, and cannot have an active role in that process, because it is part of the ECB to be an independent institution, and not participate in such a mechanism, which leads me to tell you that I don't have the solution, because it's not for us to find the solution.

How do we address this QT programme that we have discussed now extensively within the Governing Council, and that will start in March? We believe that it is totally legitimate, appropriate, and actually efficient to go in the direction of reducing the size of our balance sheet. To do that in a measured and predictable way, so that markets appreciate and assess how it is going to unfold, at which pace, in what volumes, and there will be many more details that will be made available, including composition, classes of assets, permutation between them eventually, the greening and the green tilting of it, that will be released at our next Governing Council meeting in February.

**So a question about the meeting. Did the Governing Council discuss a bigger or smaller rate hike than the one that was approved, and a faster or slower pace of QT than the one that was approved?**

**My second question is about the reaction function. What do you need to see before you stop rate hikes? To give an example, your colleague and fellow countryman Villeroy de Galhau said he needed to see a turning point in underlying inflation, positive real rates across most maturities and anchored inflation expectations. Do you broadly agree with him?**

On the first one, I'm very pleased to tell you that there was general consensus around the table about the assessment of the current economic situation and general agreement about the orientation that we have and the strategy, which is to decisively, with determination and perseverance, return inflation to 2% and to use all the tools that are most appropriate to that end. Not everybody agreed on the actual tactics, and I think that there was a very broad majority to support the view that we should show perseverance, move at a steady pace, stay the course, to cover the ground that we have to cover. So you will be doing your digging and your asking and all the rest of it, but I can assure you that, in terms of strategy, in terms of direction, in terms of orientation, there was total agreement on the part of the Governing Council. Some might have wanted to do a bit more, some might have wanted to do a bit less, but eventually we coalesced with a very broad majority around the decision that you have in front of you.

On the other question that you asked, I just want to take you back to the four messages, because I think that one of them is clearly important. And I will take, again, the first paragraph that we have in the monetary policy statement. We say: "We judge that interest rates will still have to rise significantly" – we had some clarification on this "significantly" – "at a steady pace, to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our 2% medium-term target." And then: "Keeping interest rates at restrictive levels will, over time, etc..." So this is the fourth message that we are releasing in that paragraph, which is that we will sustain the course. It will not be enough to hit and withdraw. We will sustain the course, because we want those levels of [interest rates] to remain at those restrictive level for long enough so that we can be confident that inflation returns to target.

**My question is about the ESM [European Stability Mechanism], actually. It seems that the Italian Government is poised to be the only eurozone government which won't ratify, at least any time soon, the reform of the ESM. And some of the governments claimed recently that the ESM in its current form has become an obsolete instrument. So would you like to comment on this, taking into consideration also that the ESM, of course, is key to the activation of OMT [Outright Monetary Transactions]?**

My understanding is that the case that was pending before the German Constitutional Court has now been settled and Germany is now in a position to ratify, which, as you say, leaves Italy as the outlier who has not yet ratified. From a European Central Bank point of view and bearing in mind that we have long advocated completion of Banking Union, obviously, we hope that the ESM ratification by Italy will come in short order, because that would then enable the ESM to play its role. On the relation between the ESM and OMT, my understanding is that under its existing principles and under the existing governance of the ESM, the ESM can be activated if and when necessary in relation to OMT. So it's not as if there was no governance in there. The ESM has a governance, and can operate, including in relation to OMT, which is obviously one of the tools in the toolbox that we have.

**The first one is, in your growth forecasts, you're forecasting that growth will return to the historical run rate that the eurozone has grown at in the past, why do you think that's likely, given all of the structural changes that are happening in the economy and everything that's happened this year, in terms of the energy crisis, etc?**

**Second question is about central bank losses. Many national central banks are warning that we will make significant losses this year and in the coming years ahead as interest rates rise. Do you think it's sustainable for Eurosystem national central banks to run with negative equity, and would that be a situation that is sustainable?**

On the GDP projections that we have, we have, as you said, slightly updated 2022. We have downgraded 2023 by 0.4 percentage points and we now have growth at 0.5%. Then we have 1.9%, followed 1.8%, so there is no upgrade or downgrade of those projections, and we believe that after this – a number of phenomena have faded – growth will actually return. Let me give you a couple of examples of those factors that will fade. One comes to mind, which has been impacting both GDP and inflation, is the supply chain bottlenecks that have prevented operations from functioning properly, and which is obviously fading out significantly at the moment. I think one question mark that we need to have on our mind is what happens to China and what role will China play in that context, which will be very interesting to monitor and to also assess as well.

Another reason why staff is offering those projections has to do also with the strength of the labour market, and the fact that we are currently at rock bottom unemployment rate for the euro area. And given the shallow and short-lived recession that we anticipate at the turn of this year, these employment numbers should remain high, and participation should continue to increase. There is clearly a question mark as to how the energy market is going to pan out, and how our economies in three years' time will develop new ways of operation, will go into renewable sources of energy, hopefully, and what impact the price of LNG will have on us, and what kind of substitution we will benefit from in the very sad assumption where the Russian weaponisation of fossil fuel was to continue. But all in all, we believe that this 1.9% followed by 1.8%, which is roughly the growth rate that we had previously for the euro area, has chances to return, and recovery would come after the short and shallow recession that we anticipate at the turn of the year.

Now, you also asked me on the central bank losses, and some of them – you know them well – have already indicated and have already communicated to their parliaments, or to the markets – because some of them can be public entities, or can be owned by stakeholders that are not necessarily the state or represented by government – have already gone public to indicate how much losses they will be generating, and what will their capital look like. Each and every of those national central banks is going to have to look at its balance sheet, is going to have to look at its equity, and it's going to have to operate on the basis of the legal framework and the governance that is applicable. It's going to be different whether you talk about the National Bank of Belgium, or whether you talk about Banca d'Italia, or whether you talk about the European Central Bank. So I don't have a general framework that would apply to all of them, because they're all different, in essence. But I think when you look at history and what has happened to other banks around the world, central banks can actually operate despite being in a loss position, and some of them have operated with negative equity as well.

So, clearly, each and every national central bank will have to comply with its set of rules and regulation, comply with its governance, and that's what will happen. My understanding is that, at the moment, many of them have accumulated sufficient buffers, or sufficient provisions, in order to go through the current crisis, but as I said, each and every one of them is going to be different. They have, historically, generated quite a bit of profit, so there is a rebalancing act, in a way, which is taking place now.

**Do you think that the inflation rate will already fall in December? And do you think it will be more difficult to go on hiking rates if inflation is falling in the future?**

It may well be that the December number of HICP, and possibly core inflation, be a little bit lower. But we have good reasons to believe that January and February, for instance, are likely to be higher. So we cannot be fixated on one single number. We have to look at a trend, we have to look at the inflation outlook, we have to consider what has been achieved, and certainly where we want to go, because for the moment, what really matters – and I think that's embedded in that decision that we took today – is the destination. Where do we want to go? As I said, we have more ground to cover. We have to go longer, and we are in this long game, which is the reason for the decision. To just give you a little bit more substance: typically, January and February are months where some of the passthrough, particularly energy prices, will reach the retail level. There are countries where the wholesale high prices have not yet travelled through the retail, and where people have not yet seen the high level prices, for energy in particular, so we are very mindful of that. The other component which we see also rising in the next few months is food. So food and energy will continue to, unfortunately rise, which explains why we have this revision of projections.

**I have two questions. The first one is about the impact of balance sheet reduction. Recently, Mr de Guindos admitted that the ECB was unaware of the consequences of starting the review to reduce the balance sheet, as he lacks prior experience. Have you discussed about that possible impact? Could you help us to shed some more light on this?**

**In second place, we've seen how recently the ECB has increased its warnings about banks, saying that they are being very bullish on the outlook, but my question is, isn't the ECB also**

**being overly optimistic in saying that the recession would be relatively short-lived and shallow?**

Thank you for your question, but the Vice President is much more equipped than me to address your question.

De Guindos: Well, the question on the banks: we have always indicated that the interest rates is improving the short-term profitability of the European banks, but that we should not be blinded because of this improvement, this short-term improvement in profitability. And that we should take into consideration perhaps a broader picture of the situation. In that sense, first of all, we are projecting that financing conditions are tightening, and this will have an impact on the funding of the European banks. And simultaneously the slowdown of the economy will have also an impact on the solvency of the clients of the banks. So that's the approach. It's a cautious approach. The recent improvement in the return on equity of the European banks, but simultaneously we have to look a little bit further away, and in that respect we have to take into consideration the solvency of the clients and the impact that the increase in the interest rates is going to have on the funding of the European banks.

With respect to the question of the balance sheet, well, I think that the point that I wanted to make is quite clear. The reduction of the balance sheet – QT – is a new experience for us. It's a new tool for the ECB. In that respect, that's why as the President has indicated, we have to be predictable, and we have to be measured and prudent in the implementation of QT, and that's what we have discussed in the Governing Council, and that's why we have decided that we will start with that reduction of our balance sheet of €15 billion, starting in early March, and we will continuously assess the impact that this measure is having on financing conditions, on the monetary situation, and the monetary policy stance.

**Yesterday, the FRB [Federal Reserve Board] decided to slowdown the pace of hiking interest rates. What is the implication for the ECB's monetary policies? Of course, I know monetary policy decisions are made by each central bank, but is it possible the ECB will continue to raise interest rates after the FRB has finished raising rates?**

Thank you for your question, because it helps me to clarify one thing. Anybody who thinks that this is a pivot for the ECB is wrong. We're not pivoting, we're not wavering. We are showing determination and resilience in continuing a journey where we have, if you compare – comparisons are odious, but if you were to compare with the Fed – we have more ground to cover. We have longer to go, and that is the reason why we have very specifically added messages in our monetary policy statement to reflect that fact. This is not a pivot. We're not slowing down. We're in for the long game. Which is why we said we have to rise significantly, we have to move at a steady pace, we have to reach levels that are sufficiently restrictive, so that the interest rate takes us to the inflation of 2% timely, and we have to remain at those levels to make sure that we actually have sufficient certainty that we are there, and that we have, indeed, tamed inflation. So I know that it is tempting to assume that, oh, well, all central banks are doing the same thing at the same time. Not quite. The ECB is not pivoting.

**My first question is about cryptocurrencies, because now that Mr Bankman-Fried is behind bars, and we have the thousands bankruptcy of cryptocurrency, are you still worried – I mean, Mr Panetta was very severe in the last days – but what is your opinion about cryptocurrencies?**

**How should they be regulated, and are you still worried that a big tech like Facebook might one day announce its cryptocurrency?**

**My second question is about Italy, because the markets have become quite calm around Italy, and it didn't seem so in the summer, because it was a new government, do you think that the TPI [Transmission Protection Mechanism] is already having an effect on the markets, or it is a combination of TPI and the fact that maybe the new government is cautious on fiscal policy? What do you think?**

On your first question, I entirely support the views expressed by Mr Panetta, who has been actively engaged in framing the digital euro that we have worked on, and of which we will know the future in October 2023. That's the time when we will actually decide whether we go for real. But I have long, long ago indicated that cryptoassets – I wouldn't call them cryptocurrencies – but cryptoassets need to be regulated on a global basis. I remember when I said that some three years ago. It made some people laugh. I still think to this day – and I'm not the only one – that there has to be a framework, a regulation, supervision, transparency of information, so that there are no misled consumers with tempting offers as a result of those cryptoassets being around. I feel quite strongly about that, and I'm pleased that there are colleagues around the world that are now of the same view, and whether it's Terra, LUNA, FTX or others, we are clearly seeing that the lack of regulation, the lack of supervision, is exposing consumers around the world. I'm really pleased to see, as well, that MiCA, at the European level, is a breakthrough. I'm not sure that it's enough. I hope it's MiCA 1 and there will be a MiCA 2, to go further, but at least we are setting some standards which, hopefully, will inspire others around the world to also develop such a framework.

In relation to TPI, as you know, this is a tool that is in the toolbox, that, together with the flexibility of reinvestments, is intended to make sure that our monetary policy is transmitted smoothly across the entire euro area. And as far as we can tell, our monetary policy is currently well transmitted around the euro area. But it's, obviously, a tool that we have available, that we shall use if necessary. It's not intended to deal with country fundamentals, but it's intended to address the issue of transmission of monetary policy.

**I have one question similar to the question Jerome Powell got yesterday. Compared to the October meeting, some of the financial conditions have become looser, actually. Bond yields have gone down, for example. So does that not undermine your fight against inflation? What's your view on that?**

**Second question, you want to raise rates at a steady pace, 50 basis points. That somehow reminds me of forward guidance. Why are you giving up this flexibility to decide from meeting to meeting?**

Let me make that point clear. Forward guidance, we certainly take it as a principle in relation to QT. We're very explicit. We refer to €15 billion on average per month over a period of four months, and then we will reassess at the end of the second quarter. On the issue of interest rates, we will be looking at data. We will be data-dependent, and we will review data, particularly when we have projection meetings that are every three months or so. We will reassess very carefully. But what we know today is, given the financing conditions, as you mentioned, given the expected terminal rate embedded in our projections, this is not enough, and we need to take this fight and continue the battle against inflation. So we will continue that at a steady pace. Based on the information that we have available today, that predicates another 50-basis-point rate hike at our next meeting, and possibly at the one after that, and possibly thereafter, but everything will also be determined by the review of data. So don't assume that it's a one-shot 50; it's more than that. I don't know how many more times. So it shouldn't be regarded as the new normal, but in the current circumstances, we believe that this the right approach on a steady-pace basis.

**The forecast for growth in 2023 was down to 0.5%, which leaves very little room for avoiding a recession. Now that you say that you will raise the rates again many times. Don't you fear that it would lead to the eurozone to fall into a recession?**

As I mentioned earlier on, in our staff projections we anticipate at the turn of the year, meaning fourth quarter, possibly, first quarter of 2023, a shallow and short-lived recession. We also anticipate that after that shallow and short-lived recession, for various reasons that we can go into, including this issue of the supply bottleneck, the base effects on the energy front, the active and robust labour markets, we anticipate that the recovery will pick up, which is the reason why we have this 0.5% projection for growth in 2023. But we also believe, because it is our job, that we have to deliver on our mandate of price stability. And under the current circumstances with the data we have, with the inflation projections that have been updated on the occasion of this meeting we have to stay the course and raise significantly interest rates, which is what we are doing today, and do so at a steady pace, because we have more ground to cover. We will need to do that up until such time when our interest rates will deliver the 2% inflation target that we have.

**This brings us to the end of our press conference. Our next regularly-scheduled press conference is on 2 February. Up until then, we wish those who celebrate Christmas a Merry Christmas, and also a Happy New Year.**

Happy Holidays to everybody.

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